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Transtar

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Surface Transportation Board
Office of the Secretary
Case Unit Control
ATTN: STB Ex Parte No. 582
1925 K Street, N.W.
Washington, DC 20423-0001

Dear Secretary:

On behalf of Transtar, Inc., I am respectfully submitting the attached written comments concerning STB Ex Parte No. 582. Transtar appreciates having the opportunity to give voice to our concerns regarding major rail consolidations and the resulting impact on our industry.

Sincerely yours,

John C. Pranaitis

John C. Pranaitis
Vice President-Marketing

Attachment

Transtar, Inc.
Written Comments
STB Ex Parte No. 582

Transtar, Inc. owns and operates seven shortline and regional railroads serving customers in Alabama, Illinois, Indiana, Minnesota, Ohio, Pennsylvania, and Wisconsin. These railroads include: the Bessemer and Lake Erie Railroad, the Birmingham Southern Railroad, the Duluth, Missabe and Iron Range Railway, the Elgin, Joliet and Eastern Railway, the Lake Terminal Railroad, the McKeesport Connecting Railroad, and the Union Railroad. Transtar's rail operations support the handling and movement of a diverse range of commodities, but both historic and current traffic has been generally concentrated in the transport of raw materials for the steel industry, coal for the electric utility industry and, to a lesser degree, other general merchandise.

The seven Transtar railroads cannot carry on their business independently of the nation's other rail carriers. As relatively small, niche players in the railroad industry, the Transtar railroads must both cooperate and compete with much larger railroad companies on a daily basis. Such "cooperative competition" would seem, in almost any other industry, to be an oxymoron. It is not, however, in the U.S. railroad industry. Transtar's cooperation with the country's Class I rail carriers must be fostered and carefully maintained in the development of efficient traffic routings and market-competitive rates and contracts. Only by nurturing mutually-beneficial relationships with these mega-railroads can shortlines and regionals such as Transtar hope to offer their customers the kinds of reliable, efficient and cost-effective transportation services that are routinely demanded by today's sophisticated shippers.

While cooperating, Transtar and other shortlines and regionals must often also compete directly (or indirectly) with one or more of the Class I carriers for business from customers that are jointly served. Car supply, quality of service, responsiveness and, of course, competitive rates must be brought to the shipper in a competitive environment that is heavily weighted to the advantage of the mega-railroad. To compete, Transtar must be able to identify those areas of rail service in which it can excel, while either abandoning or minimizing the importance of those areas where sheer size affords Class I's overwhelming dominance. It is a delicate business balancing act that rarely affords an advantage to the smaller railroads. More and more often during the past several years of Class I mergers, Transtar (and its peers) have found that managing all of these pieces into a framework of quality rail service for its customers has become increasingly difficult.

If Transtar's railroad companies and its counterparts were the only ones to suffer from this railroad merger-mayhem, little would be said. However, the slow bleeding of many shortlines and regional railroads that has resulted from the accretion of rail industry power into the ever fewer, but ever larger, laps of the Class I's has definitively not produced either superior rail service to shippers or dramatic reductions in effective rates. On the contrary, service quality has been eroded not only on the Class I's whose merged operations failed to deliver as promised, but has seriously degraded the ability of shortlines and regionals to perform in their niche markets. Where the highly-capitalized and geographically-diverse Class I's can absorb seemingly endless strings of service disruptions and still be able to pour costly resources into yet more "service solutions," smaller railroads can quickly find themselves revenue-constrained at the same time that they are powerless to address the service shortcomings of their "cooperating" Class I partner(s).

For shippers dependent on smaller railroads, these recent mergers represent critical business challenges. Though the element of competition between carriers provides the supposed incentive for shipper benefit, actual practice dictates that a collaboration exists between shipper and small railroad if only to avoid serious service disruptions. In the final outcome, the shipper becomes the party to the transaction most likely to suffer commercial harm from the imbalance of power created between unequal but supposedly competitive carriers.

The recent round of railroad acquisitions, mergers, and consolidations has been largely detrimental to shortlines and regional railroads such as Transtar. These smaller rail companies ensure that rail service is maintained on this nation's system of lighter-density rail lines. This is the very same light-density rail system that has been unable to achieve the Class I's financial hurdle-rate for either retention or inclusion within their mega-systems. Only where the Class I partner dominates the business relationship can a shortline sustain a business model that provides for its continued survival and service reliability (perhaps) to its customers. Abrogation of competition seems to be the emerging standard that will dominate shortline-Class I business dealings. The "cooperative-competition" of earlier relationships is giving way to a "dictate-capitulate" dysfunction.

The proposed merger of the BNSF and the CN is another, and likely not the last, step toward restricted competition in the railroad industry. The marginalization of the shortline and regional railroad industry continues. The economies of scale to be achieved by the mega-railroads will not lead to a competitive bonanza for shortline shippers, but rather will place non-Class I served communities at a disadvantage in attracting industrial development. The benefits of merger may eventually be felt at the service core of a Class I's system, but the edges of that system are occupied by shippers and communities served by shortlines and regionals that will never feel the "trickle-down" benefit.